Business Plan

Fiscal Year Ending March 31, 2013

BCFerries

Table of Contents

	Page
Message from the President & CEO	1
Our Vision, Mission and Definition of Success	3
Business Plan Goals	6
Safety	7
Operational Reliability	9
Continuous Improvement	11
Value for Money	13
Financial Integrity	15
Financial Plan	17

FORWARD LOOKING STATEMENTS

This Business Plan contains certain "forward looking statements". These statements relate to future events or future performance and reflect management's expectations regarding our growth, results of operations, performance, business prospects and opportunities and industry performance and trends. They reflect management's current internal projections, expectations or beliefs and are based on information currently available to management. Some of the market conditions and factors that have been considered in formulating the assumptions upon which forward looking statements are based include traffic, the Canadian Dollar relative to the US Dollar, fuel costs, construction costs, the state of the local economy, fluctuating financial markets, demographics, tax changes, and the requirements of the Coastal Ferry Services Contract.

Forward looking statements included in this document include statements with respect to:

- our expectations regarding our safety, operational, employee, regulatory, customer relations, marketing and environmental initiatives;
- our asset renewal programs for vessels and terminals;
- the additional payments to be received from the Province over the following four fiscal years;
- our expectations regarding the impacts of Bill 47 and IFRS;
- our expectations regarding traffic levels and economic conditions;
- our expectations of a net loss in fiscal 2013 and a return to profitability in fiscal 2014; and
- revenue, expense and budget projections.

In some cases, forward looking statements can be identified by terminology such as "may", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative of these terms or other comparable terminology.

A number of factors could cause actual events or results to differ materially from the results discussed in the forward looking statements. In evaluating these statements, prospective investors should specifically consider various factors including, but not limited to, the risks and uncertainties associated with traffic volume and tariff revenue risk, safety and security, asset risk, accident risk, tax risk, environmental risk, regulatory risk, labour disruption risk, limitations of vessel repair facilities, risk of default under material contracts and aboriginal land claims.

Actual results may differ materially from any forward looking statement. Although management believes that the forward looking statements contained in this Business Plan are based upon reasonable assumptions, investors cannot be assured that actual results will be consistent with these forward looking statements. These forward looking statements are made as of the date of this Business Plan, and British Columbia Ferry Services Inc. assumes no obligation to update or revise them to reflect new events or circumstances except as may be required by applicable law.

A Message from the President & CEO

At BC Ferries, our focus is to provide a safe, reliable and efficient marine transportation service. Looking back over the past year, our many accomplishments demonstrate this focus and give us much to be proud of.

- Continued decreases in both time loss injuries and days lost due to injury, with the successful completion of SailSafe Phase II, a joint initiative with the BC Ferry & Marine Workers' Union
- More than $122 million capital invested in terminals, vessels, equipment and information systems
- Reached a fleetwide record of 91% for on-time performance and continued strong performance in fleet reliability
- Continued high customer satisfaction levels

Former B.C. Auditor General George Morfitt released a follow up review on the operational safety audit conducted in 2007 which concluded we continue to operate a safe system. The report states "there has been, since our 2007 report, a significant improvement in the safety culture and practices within the company". We will continue to ensure safety is our first priority in fiscal 2013 through training, education and communication initiatives with Sailsafe Phase III.

In February 2012, the Union and its members ratified an extension of the collective agreement through October 15, 2015 resulting in a stable environment for our employees and travelling public for the next three years.

Fiscal 2012 was a challenging year, with disappointing traffic results. Traffic declines continued through fiscal 2012, with a 3.5% decrease in vehicles and 2.8% decrease in passengers. While fares are a contributing factor, similar experiences witnessed on the free inland ferries (with declines of between 3.4% and 5.5%) and other ferry systems throughout the world, reinforces that the worldwide economic environment and high gasoline prices as a root cause. In spite of this economic climate, we experienced strong growth in our drop trailer business, retail and gift shop merchandise and travel packages.

I am proud of the fact that through responsible cost containment measures we were able to improve on our budgeted target for fiscal 2012, without compromising safety or maintenance of our fleet and facilities. These successes are a testament to the dedication and professionalism of all our employees.

Capital investments in our fleet are essential to ensure the long term safety and reliability of our service. In fiscal 2013, we plan to invest $114 million in vessel and terminal capital expenditures and systems expenditures to support our business requirements and improve service delivery.

On January 24, 2012 the BC Ferry Commissioner completed his review of the Coastal Ferry Act, publishing a report containing 31 recommendations. In response to this report, the Province of British Columbia passed legislation amending the Coastal Ferry Act, which implemented many of Mr. Macatee's recommendations. The amended act provides a framework for the Commissioner to balance the interests of the taxpayers, users and ferry operation, important to the long term financial sustainability of coastal ferry services

Included with these legislative changes came a commitment from the Provincial Government for an increase of $79.5 million in Provincial Service Fees and other contributions related to performance term three, and a focus on service level adjustments and a long term vision for connecting coastal communities. I am

optimistic that these commitments, along with the legislative changes, will form the basis of ensuring a coastal ferry system which is viable over the long term. Achieving success is in the best interest of all stakeholders. I look forward to working with the Province, the Commissioner and our customers to do our part in achieving this success.

These are still challenging times. While our financial position will improve we still anticipate a relatively small loss for fiscal 2013 before returning to profitability in fiscal 2014. However, because of the dedication and skill of all at BC Ferries, I feel we are well positioned to adjust and respond to the challenges that lay ahead.

We will continue to focus on providing safe, reliable and efficient marine transportation service to ensure our customers continue to travel with confidence.

Mike Corrigan

President & Chief Executive Officer

Our Vision, Mission and Definition of Success

Our Vision

To provide a continuously improving west coast travel experience that consistently exceeds customer expectations and reflects the innovation and pride of our employees.

Our Mission

To provide safe, reliable and efficient marine transportation services which consistently exceed the expectations of our customers, employees and communities, while creating enterprise value.

Definition of Success

Our definition of success is to provide to our customers integrated marine transportation services that are safe, reliable and continuously improving, while delivering best value for money and operating in a manner that preserves our financial integrity.

Measuring Success

In support of our Vision, Mission, and Definition of Success, the Board of Directors and management of BC Ferries have implemented comprehensive long-term performance measures to gauge the progress of the business and its ongoing commitment to continuous improvement.

The safety of our passengers and employees are our primary focus:

1. Employee Safety (employee injury frequency rate X severity rate divided by 1000)
2. Passenger Safety (number of passenger injuries per one million passengers)

	Fiscal 2010		Fiscal 2011		Fiscal 2012		Fiscal 2013
	Actual	Target	Actual	Target	Actual	Target	Target
Employee Safety	1.54	2.50	1.53	1.56	1.31	1.31	1.22
Passenger Safety	20.16	21.50	18.11	21.50	15.31	18.11	15.45

Other important areas of focus include:

3. Reliability (actual round trips divided by scheduled round trips, less weather, medical or rescue related cancellations)
4. Customer Satisfaction Rating
5. Cost per passenger (total operation cost-ancillary revenue) / total passengers
6. Earnings before interest, taxes and amortization (EBITDA, in $ millions)

	Fiscal 2010		Fiscal 2011		Fiscal 2012 (CGAAP)		Fiscal 2013 (IFRS)
	Actual	Target	Actual	Target	Actual	Target	Target
Reliability Index[1]	99.70%	99.4-99.59%	99.83%	99.4-99.59%	99.76	99.4-99.59%	99.5-99.69%
Customer Satisfaction	91%	84%	89%	84%	88%	83%	88%
Cost per Passenger	$20.96	$20.67	$21.90	$21.66	23.04	$23.29	$23.85
EBITDA (millions)	$186	$189	$181	$189	$177	$176	$206

1 The reliability index has been recalculated for fiscal 2010 and fiscal 2011 to represent actual round trips divided by scheduled round trips less weather, medical or rescue related cancellations.

Business Plan Goals

Our strategies are structured around five key goals that are critical to our success. Of these, no goal is more important than safety.

The following sections define the supporting strategies and tactics for each of the five goals.

1. Safety

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals and facilities.

2. Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.

3. Continuous Improvement

To be better at everything we do.

4. Value for Money

To continuously improve value to our customers at every point along the customer experience chain.

5. Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

1.Safety

To protect our customers and employees by continuously improving the safety of our operations, inclusive of vessels, terminals, and facilities.

Safety - Strategies and Tactics

At BC Ferries, the safety of our customers and employees has been and will continue to be our top priority.

On January 19, 2012 former B.C. Auditor General George Morfitt released a comprehensive follow-up review to the original operational safety audit conducted in 2007. As stated in the summary, the review concludes BC Ferries continues to operate a safe system.

> *"We have concluded from our follow-up review that the company continues to operate a safe coastal ferry transportation system. There has been, since our 2007 report, a significant improvement in the safety culture and practices within the company. The company directors, management and staff have demonstrated their commitment to safety being number one both for the travelling public and for BC Ferries personnel.*
>
> *We found that awareness about, and actions taken in regard to, safety have increased substantially since we carried out our last review. Considering that many of our recommendations were of a complex nature and necessarily would take a considerable time to implement, the progress to date made by the company in respect of the recommendations is highly commendable. Of our 41 recommendations, 28 have been fully or substantially implemented, 12 partially implemented and there is one where no action has been taken."*

In fiscal 2013, we will:

- **Continue to meet or exceed all safety regulations;**
- Continue to foster a culture of safety through training, education and communication, through such activities as Town Hall meetings, audits, investigations, safety newsletters, and employee-supervisor education partnering;
- Validate, implement and monitor action items arising from SailSafe Phase II, continuing towards a shared goal of safety improvement in partnership with the Union as we transition to sustainment SailSafe Phase III;
- Expand the risk assessment program into all areas of the company, including operational risk registers, management training and tracking of identified issues;
- Expand the Bridge Team Simulation Program to strengthen awareness and improve interdepartmental efficiency and effectiveness;
- Establish a Health and Wellness action plan, promoting the health of our employees;
- Continue to focus on reducing time loss injuries and days lost through awareness and early intervention when injuries occur; and
- Continue to reduce controllable passenger injuries and maintain high standards for food safety throughout the fleet.

2.Operational Reliability

To continuously improve the operational reliability of vessels, terminals and facilities.

Operational Reliability - Strategies and Tactics

We will continue to invest in our assets to improve overall system reliability.

Our total capital investment budget in fiscal 2013 is approximately $114 million:

- $87 million in vessel and terminal capital expenditures will be made in fiscal 2013 , including:
  - Completion of life extension of the *Queen of Chilliwack*
  - $19 million in vessel major overhauls and inspections[2]
  - Ramp upgrades and life extension of transfer deck at Horseshoe Bay
  - Replace/upgrade marine structures at Alert Bay
  - Life extension of the *Tachek*
  - Right Angle Drives, Life Saving Equipment and Sewage system on *Kahloke*
  - Begin work on a cable Ferry between Buckley Bay and Denman Island
  - Commencing the replacement/upgrade marine structures at Westview
  - Commencing the replacement/upgrade marine structures at Little River
- Systems and other capital expenditures of $27 million will be made in fiscal 2013 to support business requirements and improve infrastructure reliability and service delivery. Specifically working towards, updating our reservations, point of sale, payment and card services, website and automating our terminal operations.

Other operational reliability initiatives include:

- Continue to refine standard operating procedures and improve ship to shore communications to improve procedural consistency and better align operations;
- Continue to maintain state of 'readiness' by ensuring vessels are effectively crewed with trained personnel, and bridge electronics, firefighting equipment and safety equipment is constantly monitored and fully functional;
- Continue to improve customer communication channels, with specific focus on ways to expedite customer reservations;
- Continue to improve vessel and terminal turn around times, through effective communication and issue resolution;
- Continue to reduce the percentage of round-trip cancellations due to engineering incidents to 0.3% or less; and
- Over the next few years, focus on the successful replacement of the *Queen of Burnaby*, *Queen of Nanaimo* and *North Island Princess*.

---

[2] previously expensed under Canadian Generally Accepted Accounting Principles

3.Continuous Improvement

To be better at everything we do.

Continuous Improvement - Strategies and Tactics

We strive to improve our productivity through finding efficiencies

- Work with the Province of British Columbia and the British Columbia Ferries Commissioner to identify appropriate service levels and resulting capital asset investment requirements, which may reduce costs while ensuring ongoing sustainable service;
- Continue to optimize fuel consumption through capital investment, vessel load management and appropriate use of shore power;
- Continue the pursuit for excellence in improved s vice, reduced risk and quick decision making through training, risk manageme and accessibility of leadership;
- Continue to optimize vessel maintenance procedures and processes to ensure reliability and effective use of resources;
- Seek opportunity to improve efficiency at the ship repair facility, through the development of people, project management and infrastructure investments;
- Pursue development of a fleet scheduling system enabling long term modelling and integration with other lines of business;
- Strengthen employee knowledge through enhanced simulator training, professional development, and Ferry Academy website.

We will work to improve customer experiences

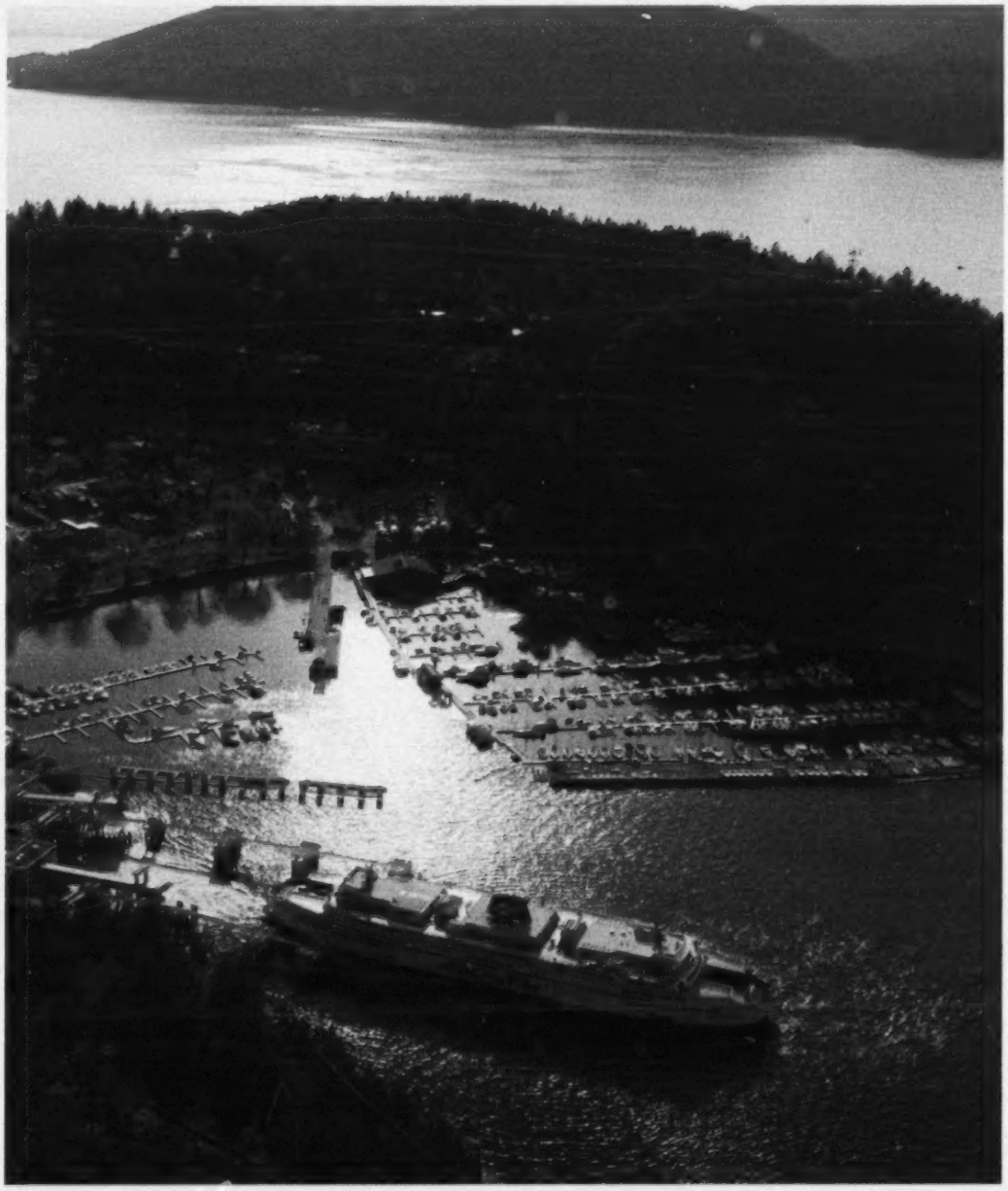
- Over the next few years, invest in updating our reservations, point of sale, payment and card services, website and automating terminal operations;
- Improve security and reliability of baggage handling process;
- Implement a terminal customer *way-finding* signage plan for the major terminals;
- Strive to provide high quality, high demand travel package offerings;
- Launch an electronic Gift Card Program;
- Enable the smooth movement of commercial goods for our customers.

We will prioritize safety and the environment

- Pursue liquefied natural gas as a viable alternative to marine diesel fuel;
- Seek to optimize the balance between in-port fuel efficiencies savings with hydro consumption.

4. Value for Money

To continuously improve value to our customers at every point along the customer experience chain.



Value for Money - Strategies and Tactics

We are continuing to find ways to provide better value and service to our customers. In fiscal 2013, we will:

- Work with the Provincial Government and the British Columbia Ferries Commissioner to identify appropriate service levels and a long term vision for connecting coastal communities;
- Continue to pursue viable alternative fuel sources, such as liquefied natural gas;
- Continue to optimize fuel consumption;
- Continue to create a comprehensive mix of vacation products incorporating travel on many of our routes;
- Execute an integrated marketing campaign for CoastSaver pricing promotions;
- Develop a series of retail and food marketing programs and promotions, and expand new product introduction;
- Execute Community Giving and Corporate Giving programs to support festivals, events, amateur sports and community and charitable organizations;
- Develop new onboard brand and layout standard for vessels in preparation for the *Spirit of British Columbia* mid-life upgrade;
- Continue to support commercial customers by providing supply chain solutions focusing on total transportation costs; and
- Continue to monitor claims and key performance indicators for loss prevention opportunities.

The federal government's Infrastructure Stimulus Funding program has expired, and there are currently no plans to extend the program. However, we will continue to monitor for opportunities to access funding through provincial and federal programs wherever possible to offset costs.

5.Financial Integrity

To achieve key financial targets, ensuring that sufficient capital and retained earnings are available to revitalize our fleet, facilities and infrastructure.

Financial Integrity - Strategies and Tactics

Our commitment:

We will continue to ensure the company's financial integrity during this period of uncertain economic conditions while providing safe, efficient service for our customers.

In fiscal 2013, we will:

- Work with the Province of British Columbia and the British Columbia Ferries Commissioner to identify appropriate service levels and resulting capital asset investment requirements, and a long term vision for connecting coastal communities;
- Work with and ensure the Commissioner has the necessary information to establish price caps for the balance of performance term three;
- Actively manage long-term capital and operating plans;
- Continue to encourage ridership and generate non-fare revenues to ultimately offset increases in ferry fares with ancillary revenues through product development and marketing such as CoastSavers, BC Ferries Experience Card, retail product offerings, vacation packages and gift certificates;
- Continue to promote BC Ferries by strengthening our image and marketing BC Ferries Vacations products to build destination travel business within the Province of British Columbia;
- Continue to focus on providing transportation solutions for the commercial market, building market share through diversification and strong customer relationships;
- Continue to pursue opportunities for alternative funding sources for capital and security initiatives; and
- Use best practices in supply chain management and risk/insurance coverage to manage costs.

Financial Plan

Our financial plan supports the strategies and tactics within the business plan. It contains detailed information on our fiscal 2013 operating and capital budgets.

The major strategic issue facing us when we were established as an independent company on April 1, 2003, was the replacement of our aged assets, specifically vessels, terminals and information technology systems.

Since then, we have brought into service seven new vessels, upgraded 16 existing vessels, and completed many terminal improvements and marine structure replacements, security upgrades and sewage pump-ashore and waste water treatment systems. As a result of this significant investment in our assets, interest and amortization expenses have increased from $68 million in fiscal 2004 to $193 million in fiscal 2012, an increase of $125 million.

Beginning with the global economic downturn in 2008, we have experienced significant erosion in our traffic, reaching a 21 year low in passenger levels and a 13 year low in vehicle traffic. Concurrently, there has been considerable operating expense increases, most notably fuel with an increase of over 140%, insurance premiums, property taxes, environmental and security regulations, utilities, benefits program rates and labour agreements.

During this time, our focus has been on providing a safe, reliable and efficient marine transportation service.

In fiscal 2012, we completed 26 vessel refits, and 4 vessels received significant upgrades. Further fuel consumption efficiencies were achieved, resulting in an overall decrease from fiscal 2004 of 3.0%, a savings of 3.7 million litres (a reduction of over 6.3 million litres from fiscal 2003). In addition, administrative costs remained below those experienced in fiscal 2004, even before taking inflation into account.

($ millions)	Fiscal 2004 Actual[3]	Fiscal 2012 Actual
Operations Costs		
Labour	202	257
Fuel[4]	50	121
Materials, Supplies, Contracted services and other	33	34
Insurance[5], property tax, utilities and credit card fees	10	23
Maintenance Expenses	84	86
Administration Expenses	32	31
Net Financing and Amortization[6]	68	193

3 The fiscal 2004 figures for Operations, Maintenance and Administration (OM&A) expenses have been adjusted from those figures previously reported to reflect classifications of expenses used in fiscal 2011. Total OM&A expenses for fiscal 2004 are identical to those previously reported.

4 Fuel reflects the total cost of fuel net of fuel price hedging gains or losses.

5 Insurance includes gains or losses from our subsidiary, BCF Captive Insurance Subsidiary Ltd.

6 Net Financing includes financing for the Kuper owned by our subsidiary, Pacific Marine Leasing Inc.

In the coming year, we will continue to pursue opportunities to minimize costs. In addition, we will work with the Provincial Government and the British Columbia Ferries Commissioner on service level adjustments and a long term vision for connecting coastal communities. This will assist decision making as we work towards replacing 11 vessels over the next ten years, vessels which will have been in service ranging from 40 to 60 years. The long term vision is also necessary to guide the many required marine structure replacements, terminal improvements and information system investments.

Operating Forecast

Changeover to International Financial Reporting Standards (IFRS)

Commencing with fiscal 2013, all of BC Ferries financial reporting, including operating and capital budgets and forecasts, will be prepared in accordance with IFRS. Accordingly, our fiscal 2013 operating forecast shown below reflects this changeover to IFRS. The change to IFRS from previous Canadian generally accepted accounting principles (CGAAP) will have a significant impact on certain items reflected in our financial statements. In order to achieve comparability between our fiscal 2013 forecast and fiscal 2012 actual results, we show below fiscal 2013 results stated in both CGAAP and IFRS. The following is a description of the significant differences between IFRS and CGAAP reflected in the figures shown below:

- Under IFRS, the costs of regular, periodic major overhauls and inspections of our vessels are included in property, plant & equipment on our balance sheet and amortized (reflected in amortization expense on our income statement) over the period to the next major overhaul and inspection of the vessel. Under CGAAP, these overhaul and inspection costs were expensed as incurred and reflected in current period operating expenses (as maintenance expense).
- As a rate-regulated entity and following CGAAP, we capitalized some costs such as feasibility, research and training that directly related to a specific asset and these costs were amortized over the expected service life of these assets. Under IFRS these costs are expensed as incurred and reflected in current period operating expenses.
- As permitted under IFRS, cumulative actuarial losses on certain of our defined benefit employee benefit plans were recognized through opening retained earnings at transition (April l, 2011). Under CGAAP these actuarial losses were amortized to expense over the expected remaining service life of our employees. The result of this difference is lower operating expenses under IFRS than under CGAAP.
- IFRS does not permit, as CGAAP did, the recognition on our balance sheet of regulatory assets and liabilities. As a result, our operating results under IFRS will include items included in our deferred accounts such as the following:
    - fuel surcharges levied and fuel rebates given will be included in tariff revenue
    - realized fuel hedge gains or losses
    - fuel expense will reflect our total delivered cost of marine diesel fuel (including all differences between actual fuel prices and those set by the Ferries Commissioner)
    - interest on deferred fuel cost accounts
    - payments from (or to) the Province made to or from our deferred fuel cost accounts
    - tariffs collected in excess of price caps

Throughout fiscal 2012, economic conditions continued to affect ferry travel with further declines over prior years. In response, we undertook a cost containment strategy which included a hiring freeze of all non-essential positions, a two-year wage and salary freeze, cancellation of discretionary expenses, reduced use of outside contractors and consultants, and elimination of many charitable and community donations. As a result of these cost containment measures, our operations, maintenance and administrative expenses in fiscal 2012 were $31 million below previously planned levels.

In fiscal 2013, many of these initiatives remain in place. Embedded in the fiscal 2013 forecast is our commitment to the British Columbia Ferries Commissioner to reduce operating expenditure by $10.3 million from the Performance Term 3 submission.

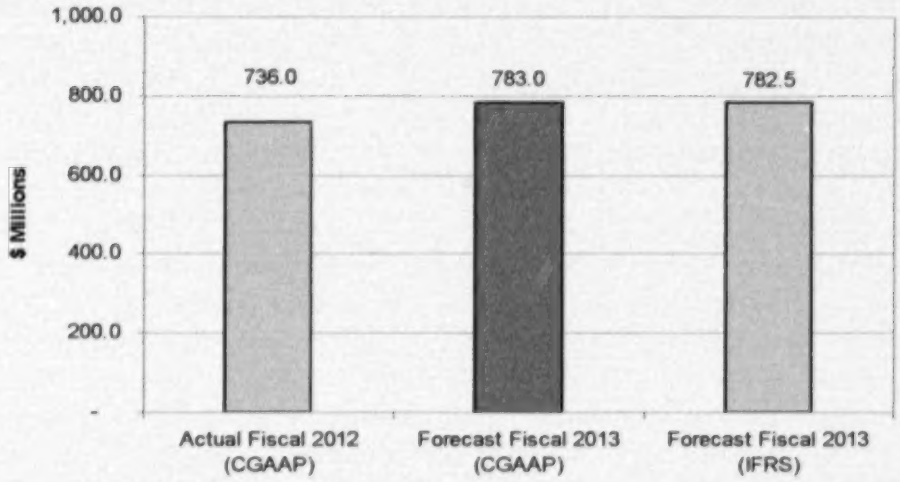
Fiscal 2013 is forecasted to result in a net loss of $3.1 million, based on revenues of $782.5 million, offset by total expenses of $785.6 million.

Operating Budget ($ millions)	Fiscal 2012 Actual (CGAAP)	Fiscal 2013 Forecast (CGAAP)	Fiscal 2013 Forecast[7] (IFRS)
Revenues			
Total Tariffs including Social Program Fees	483.6	508.0	507.5
Catering & Other Revenues	96.5	95.8	95.8
Federal – Provincial Subsidy Agreement	27.5	28.1	28.1
Ferry Transportation Fees	128.4	151.1	151.1
Total Revenue	**736.0**	**783.0**	**782.5**
Expenses			
Operating Expenses	561.0	597.4	579.0
Net Financing Expense	70.5	73.0	73.0
Amortization	123.0	136.0	136.0
(Gain) on disposal and impairment of fixed assets	0.3	-	-
(Gain) Loss on Subsidiaries	(2.3)	(2.4)	(2.4)
Total Expenses	**752.5**	**788.5**	**785.6**
Net Earnings (Loss)	**($16.5)**	**($5.5)**	**($3.1)**

7 The fiscal 2013 forecast reflects changes to the Coastal Ferry Act under Bill 47 including increased Ferry Transportation Fees.

Revenues

Our revenues are projected to increase by 5.9% in fiscal 2013[8].



Total Revenues will be affected by the following:

Total Tariffs including Social Program Fees

During fiscal 2012, traffic continued to decline, reaching a 21 year low in passenger levels and a 13 year low in vehicle traffic. We do not anticipate a turnaround in fiscal 2013.

On March 31, 2011 the British Columbia Ferries Commissioner provided a preliminary price cap decision for performance term 3 (fiscal 2013 through fiscal 2016) of 4.15% on the majors routes and Route 3, and 8.23% on the northern and minor route groups. Subsequently, on June 2, 2011 the Coastal Ferry Amendment Act (Bill 14) set the fiscal 2013 price cap increase at 4.15% for all routes.

Tariff revenue is expected to increase by 4.7% over fiscal 2012 as a result of the 4.15% price cap increase in conjunction with a very moderate increase in traffic (less than 1%).

Federal-Provincial Subsidy Agreement

Under the terms of the Coastal Ferry Services Contract, we receive an annual amount from the Province based on its agreement with the Government of Canada to fulfill the obligation of providing ferry services to coastal British Columbia. The amount of this payment is adjusted annually based on the

[8] The fiscal 2013 forecast is presented in accordance with International Financial Reporting Standards (IFRS), with changes to the fuel rebates and surcharges and price cap positions reflected in total operating revenues.

Vancouver Consumer Price Index. The Coastal Ferry Services Contract between the provincial government and ourselves provides that the provincial government will transfer to us the full proceeds of this agreement from the federal government. For fiscal 2013, revenue from this source is anticipated to be $28 million.

Provincial Fees

The Coastal Ferry Services Contract between the Province of British Columbia and us has three components. The primary component is for the provision of services on designated routes. The second includes reimbursement from the Province for fares associated with social programs (e.g. Ministry of Health travel assistance program, children travelling for school and B.C. seniors travelling Monday to Thursday). The final component is funding provided to us to oversee service provided by independent operators on eight non-regulated routes.

As a result of Bill 14, the Provincial government had agreed to fund the difference between the preliminary price cap increase of 8.23% on the northern and minor routes groups and the 4.15% increase enacted under Bill 14.

In addition, along with recent amendments to the Coastal Ferry Act under Bill 47, the Provincial government announced additional payments totalling $79.5 million in order to reduce pressure for future fare and price cap increases. The first payment of $25.0 million, approved on March 30, 2012, was received April 20, 2012 as a contribution to our equity. A further $54.5 million is expected to be received in annual payments of $21.5 million in fiscal 2013; $10.5 million in fiscal 2014; $11.0 million in fiscal 2015; and $11.5 million in fiscal 2016.

The fiscal 2013 forecast also includes a net $0.5 million increase resulting from a lift of $2.4 million associated with the *Queen of Chilliwack* life extension agreement of September 2010, partially offset by a $1.9 million decrease in the fees for the Northern Routes due to the amortization of assets deployed in that route group.

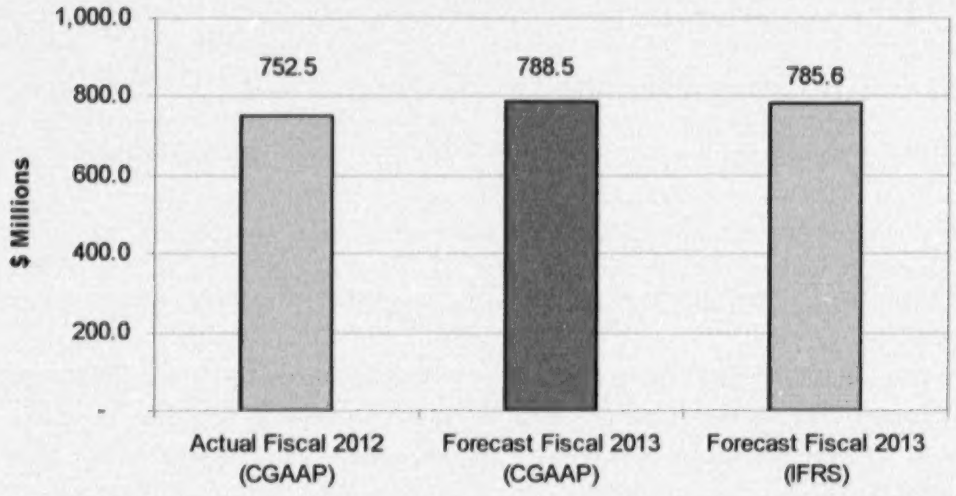
Funding for non-regulated routes will increase to $2.6 million in fiscal 2013, due to contract renewals.

Other Revenues

As the soft economy continues to be felt, in fiscal 2013 other revenues are expected to decrease slightly by 0.7%. Catering and retail revenues make up the largest component of this revenue category.

Expenses

Our expenses are projected to increase by 4.4% in fiscal 2013[9], due primarily to increases in operating expenses and amortization costs.



Operating Expenses

For fiscal 2013, operating expenses are expected to increase by 3.2% or $18.0 million. This increase is mainly attributable to the price of fuel and vessel refit and maintenance requirements, as well as an increase in our general contingency to recognize revenue and traffic risk.

Amortization

For fiscal 2013, amortization costs are expected to increase by 10.6% as a result of the following: required change over to International Financial Reporting Standards, and a full year of amortization related to capital expenditures in fiscal 2012 and partial year amortization related to capital expenditures in fiscal 2013.

Net Financing

For fiscal 2012, our net financing expense is expected to increase by 3.5% reflecting lower interest rate support under the federal government Structured Financing Facility Program than received in the prior year, partly offset by higher interest earnings and lower interest during construction costs.

---

[9] The fiscal 2013 forecast is presented in accordance with IFRS, with changes to major overhauls and inspections being capitalized rather than expensed and training and feasibility costs associated with capital projects being expensed rather than capitalized under Canadian generally accepted accounting principles.

Capital Budget

We plan to invest $114 million in fiscal 2013.

Our ferry services are supported by 35 vessels, 47 terminals, four maintenance yards, one refit complex and a head office. Investments in infrastructure are required to replace or upgrade aged assets, improve service to our customers and meet regulatory requirements. Our major capital projects for fiscal 2013 include:

Vessels:

- New Minor Vessel - Cable Ferry between Buckley Bay and Denman Island
- *Tachek* life extension
- *Queen of Chilliwack* life extension
- Major overhauls and inspections on 10 vessels

Terminals:

- Westview replace trestle, ramp aprons, towers, wingwalls and turning dolphin and upgrade active lift
- Alert Bay replace wingwalls, tower and ramp apron
- Horseshoe Bay life extend transfer deck, and ramp upgrades at Berths 1,2 and 3
- Tsawwassen Berth 3, sheet pile wall, life extension and new coatings
- Little River ramp, abutment, tower, wingwall & dolphin 13 replacement

Information Systems:

- Automated Customer Experience Program (including Reservations and Point of Sale)
- Payroll system replacement
- Business Continuity
- Website Software upgrade

The following table details the actual capital expenditures for fiscal 2012 and the planned expenditures for fiscal 2013 by asset type, including interest during construction and net of expected proceeds from Infrastructure Stimulus Funding.

Asset Type ($ millions)	Fiscal 2012 Actual	Fiscal 2013 Forecast[10]
Vessel Projects	$48.5	$53.3
Terminal Projects	$51.9	$34.3
Information Systems and Other projects	$21.8	$26.6
Net Capital Expenditures	**$122.2**	**$114.2**

10 The fiscal 2013 forecast is presented in accordance with IFRS, with changes to major overhauls and inspections being capitalized rather than expensed and training and feasibility costs associated with capital projects being expensed rather than capitalized under Canadian generally accepted accounting principles.

British Columbia Ferry Services Inc.
Suite 500, 1321 Blanshard Street
Victoria British Columbia V8W 0B7

www.bcferries.com / www.bcferryauthority.com